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SUBJECT: JOINT U.S. - SAUDI BUSINESS DIALOGUE LAUNCHED

Summary

1. (U) The Saudi Council of Chambers pulled out all the stops lining up an impressive array of Saudi business leaders to discuss U.S. - Saudi business relations with Commerce DAS Holly Vineyard. The discussion revolved around a number of key themes, including the need for a renewed emphasis on business dialogue between the U.S. and Saudi Arabia, the Kingdom's cluster strategy, reasons why U.S. companies should do business in the Kingdom, and impediments to further cooperation between the two countries.

"We Need a New Conversation on Business Cooperation"

2. (U) On January 25, the Saudi Council of Chambers hosted Holly Vineyard, Deputy Assistant Secretary of Commerce for Africa, the Middle East, and South Asia in the International Trade Administration. The Chairman of the Council, Dr. Fahad Al-Sultan, opened the discussion, saying the U.S. and Saudi Arabia need a more "intelligent" business exchange and welcomed the recent introduction of quarterly meetings of the U.S. - Saudi business dialogue. He said the Saudi government (SAG) was working to revolutionize Saudi industry by restructuring and downsizing the public sector, and by privatizing state-owned businesses. DAS Vineyard applauded the initiative to hold quarterly meetings and mentioned the upcoming U.S. - Saudi business summit in Chicago. Later in the discussion, participants raised a number of topics these discussions should address, including investment in pharmaceuticals in the Kingdom, investment in the further development of downstream petrochemicals, and investment in the aerospace industry.

SAG Cluster Strategy Focuses Efforts In Five Sectors

3. (U) Azzam Shalabi, President of the National Industrial Cluster and Development Program, presented the Kingdom's cluster strategy for economic diversification, which channels Saudi efforts towards metals, automotive manufacturing and assembly, home appliance manufacturing, solar energy production, and plastics and packaging manufacturing. Each of these sectors makes use of Saudi comparative advantages such as cheap energy, abundant sunlight, and a burgeoning petrochemical sector, said Shalabi. He further elaborated, saying the strategy is still in the formulation stage and that they need government support and private sector partners to make this vision a reality.

4. (U) In metals, Shalabi said the Saudis would be working on developing the aluminum value chain (comments which closely parallel those by Supreme Economic Council Secretary General

Saud Al-Saleh to the Ambassador in late December) and on the development of steel products for use as inputs for other industries. The automotive anchor projects the SAG is contemplating include an assembly plant for cars and SUVs, a factory to cast components for powertrains and engines, a truck and bus assembly plant, and a tire production facility with an eight to ten million unit per year capacity. While the Kingdom already produces home appliances for domestic sale, the strategy would expand upon this, increasing production of refrigerators by one million units per year and of air conditioners by 1.5 million units per year. An ample recipient of sunlight, the Kingdom aims to capitalize on this by developing the crystalline photovoltaic value chain, exporting electricity, and eventually developing the promising thin film photovoltaic value chain. Finally, in plastics and packaging, the Kingdom is already a substantial producer, capitalizing on its hydrocarbon resources. It aims to double its polymer production from 10 million tons per year to 20 by 2013; and to double its packaging production from 1 million tons per year to 2 by 2020.

Reasons U.S. Companies Should Invest in the Kingdom

¶5. (U) At the Ambassador's prompting, the Saudi participants raised a number of reasons why it would be beneficial for U.S. firms to invest in the Kingdom. Shalabi noted that Saudi Arabia has the right economic conditions to make money, including a growing workforce, programs in place to provide this workforce with training, and a clear, government-supported national strategy to encourage investment. Yousef El Maimani, Chairman of Al Maimani Holding Group, cited the work the SAG has done to improve commercial laws over the past 10 years, the advent (soon) of a commercial court, and the size of the domestic market as additional reasons why investment in the Kingdom makes sense.

¶6. (U) Dr. Abdulrahman Al-Zamil, Chairman of the Al Zamil Group, one of the largest companies in the Kingdom, discussed the Kingdom's low tariffs and general lack of protectionism, but also sounded a cautionary note, saying U.S. companies should only invest in the Kingdom if they are looking for "viable, money-making" projects that can withstand the high level of scrutiny from Saudi creditors. He singled out the work of the Saudi Industrial Development Fund for particular praise, saying that in the history of the institution, they have never had a loan that was not paid back.

Obstacles to Closer Cooperation

¶7. (U) Several Saudi participants identified difficulty traveling to the U.S. (particularly in light of recently imposed TSA requirements) as a critical obstacle to strengthening business relations between the U.S. and Saudi Arabia. Al-Zamil and others also identified U.S. restrictions on doing business with those who do business with Iran as a significant impediment. He said it is impossible to run a successful company in this part of the world and completely exclude Iran from your business.

Comment

¶8. (U) Overall the tone of the discussion was positive and constructive. While there were concerns about U.S. policy towards Iran and travel restrictions, these were isolated and did not dominate the discussion. The Saudi businessmen who were present seemed truly interested in closer engagement with U.S. businesses and provided concrete suggestions as to where future discussions should be steered to be most effective. End comment.

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